

**Sanilac County Road Commission
Sandusky, Michigan**

FINANCIAL STATEMENTS

December 31, 2007

Sanilac County Road Commission

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INDEPENDENT AUDITOR'S REPORT

Board of the County Road Commissioners
Sanilac County
Sandusky, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Sanilac County Road Commission, a component unit of Sanilac County, Michigan as of and for the year ended December 31, 2007, which collectively comprise the Commission's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Sanilac County Road Commission as of December 31, 2007, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 30, 2008, on our consideration of the Sanilac County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information as identified in the Table of Contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Sanilac County Road Commission's basic financial statements. The Other Supplementary Information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 30, 2008

Sanilac County Road Commission

MANAGEMENT'S DISCUSSION & ANALYSIS

December 31, 2007

Our discussion and analysis of Sanilac County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2007. This annual report consists of a series of financial statements. The Statement of Net assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Overview of the Financial Statements

This annual report consists of four parts - management's discussion and analysis (this section), the basic financial statements, required supplementary information, and the other supplementary information section that presents the operating fund broken down between primary, local, and county roads. The basic financial statements include two kinds of statements that present different views of the Sanilac County Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Sanilac County Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net Assets" is the difference between the assets and liabilities - this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Reporting the Sanilac County Road Commission as a Whole

Government-Wide Statements

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two statements, mentioned above, report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission, additional nonfinancial factors such as changes in the county's property tax base, the condition of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution need to be considered.

Fund Financial Statements

The Road Commission currently has only two funds, the general operations fund and the pension fund. All of the Sanilac County Road Commission's operating activities are accounted for in the general operations fund. The general operations fund is a governmental fund type. The General Operating Fund budget vs. actual schedules are located on pages 19 and 20. The other supplementary information begins on page 21 and provides detailed information about the major fund.

Sanilac County Road Commission

MANAGEMENT'S DISCUSSION & ANALYSIS

December 31, 2007

Governmental funds focus on how money flows into and out of this fund and the balances left at year-end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Sanilac County Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following each fund level financial statements.

Financial Analysis of the Road Commission as a Whole

The Road Commission's net assets increased from \$46,704,764 to \$46,730,572 for the year ended December 31, 2007. The net assets and change in net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorized the government to assess, levy, charge, or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such, all assets (except for amounts invested in capital assets, net of related debt) are considered restricted.

Net assets increased by \$25,808 during 2007. The reconstruction of 13 miles and resurfacing of 18.3 miles of primary roads, the replacement of 2 major bridges, and the purchase of a new maintenance facility all had a part in accounting for the increase in assets.

Net assets for the years ended December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Current Assets	\$ 3,030,641	\$ 2,436,240
Capital Assets	<u>45,552,980</u>	<u>45,437,401</u>
TOTAL ASSETS	48,583,621	47,873,641
Current Liabilities	595,622	469,916
Noncurrent Liabilities	<u>1,257,427</u>	<u>698,961</u>
TOTAL LIABILITIES	1,853,049	1,168,877
Net Assets Invested in Capital Assets (Net of Related Debt)	44,566,263	45,043,364
Restricted for County Roads	<u>2,164,309</u>	<u>1,661,400</u>
TOTAL NET ASSETS	<u>\$ 46,730,572</u>	<u>\$ 46,704,764</u>

Sanilac County Road Commission

MANAGEMENT'S DISCUSSION & ANALYSIS

December 31, 2007

Changes in Net Assets

This is the fifth year of Governmental Accounting Standards Board Statement No. 34, which requires this financial reporting model. The following table presents comparison between 2007 and 2006 year data.

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Program Revenues		
Charges for services	\$ 1,937,404	\$ 1,211,515
Operating grants & contributions	5,305,661	6,932,128
Capital grants & contributions	3,450,258	307,506
General Revenues		
Property taxes	1,955,465	1,832,223
Interest	149,742	79,846
Miscellaneous	<u>45,190</u>	<u>2,601</u>
TOTAL REVENUES	12,843,720	10,365,819
Expenses		
Primary Roads	2,714,330	1,136,462
Local Roads	4,375,984	4,105,291
State Trunkline	1,898,327	1,182,965
Equipment - net	688,609	1,080,862
Administrative - net	344,955	(491,391)
Infrastructure depreciation	2,771,642	2,659,267
Interest expense	24,065	7,479
Other	<u>-</u>	<u>15,561</u>
TOTAL EXPENSES	<u>12,817,912</u>	<u>9,696,496</u>
INCREASE IN NET ASSETS	<u>\$ 25,808</u>	<u>\$ 669,323</u>

The Sanilac County Road Commission's Fund Level Information

The Road Commission's general operating fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for road and highway purposes. For the year ended December 31, 2007, the fund balance of the general operating fund increased \$424,992 as compared to an increase of \$91,432 in the fund balance for the year ended December 31, 2006. Total operating revenues were \$12,843,720, an increase of \$2,477,901 as compared to last year. Total expenditures were \$13,243,820, an increase of \$2,702,331 as compared to last year.

Sanilac County Road Commission

MANAGEMENT'S DISCUSSION & ANALYSIS

December 31, 2007

A summary of changes in the Operating Fund for the years ended December 31, 2007 and 2006:

	<u>Operating Fund</u>	
	<u>2007</u>	<u>2006</u>
Revenues		
Taxes	\$ 1,955,465	\$ 1,832,223
Licenses & Permits	21,260	30,785
Federal Grants	1,240,196	223,673
State Grants	6,123,095	5,501,531
Contributions from local units	1,392,628	1,514,430
Charges for services	1,916,144	1,180,730
Interest & Rents	149,742	79,846
Other	<u>45,190</u>	<u>2,601</u>
TOTAL REVENUES	12,843,720	10,365,819
Expenditures		
Primary Road	6,107,674	3,865,270
Local Road	4,417,592	3,487,294
State Trunkline	1,898,327	1,211,735
Equipment - net	126,068	367,480
Administrative - net	292,318	341,856
Capital outlay	154,131	(201,959)
Debt service	247,710	44,176
Other	<u>-</u>	<u>1,425,637</u>
TOTAL EXPENDITURES	<u>13,243,820</u>	<u>10,541,489</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	(400,100)	(175,670)
Other Financing Sources		
Loan proceeds	825,092	-
Lease proceeds	<u>-</u>	<u>267,102</u>
TOTAL OTHER FINANCING SOURCES	825,092	267,102
NET CHANGE IN FUND BALANCE	424,992	91,432
FUND BALANCE - BEGINNING	<u>2,053,406</u>	<u>1,961,974</u>
FUND BALANCE - ENDING	<u>\$ 2,478,398</u>	<u>\$ 2,053,406</u>

Sanilac County Road Commission

MANAGEMENT'S DISCUSSION & ANALYSIS

December 31, 2007

The following details the primary road projects for 2007. The primary road millage is only used on primary road construction and preservation.

Location	Type of Work	Fed/State Aid	Total Cost
Parisville Road- Bay City Forestville to Huron Co Line Road	Overlay		\$ 52,379
Germania Rd-Deckerville Rd to Argyle Rd	Overlay		166,756
Todd Rd-Fisher Rd to M-90	Recycle/Overlay	\$1,493,053	1,565,165
Bay City Forestville-M-19 to Polk Rd	Recycle/Overlay	1,076,379	1,105,585
Galbraith Line Rd-Sheppards Rd to Melvin Limits	Overlay		324,031
Germania Road—Marlette Rd to Walker Rd	Overlay		166,811
Bay City Forestville Rd-M-53 to Lamton	Overlay		52,734
Galbraith Line Rd-M-19 to Cork Rd	Culvert replacement		2,709
Ruth Rd-Palms Rd to Huron Co Line Rd	Overlay		219,340
Bay City Forestville-M-53 to M-19	Overlay		137,150
Deckerville Rd—E Vill Limits to Maple Grove Rd	Overlay		155,054

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts, and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the Board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2007 was \$1,770,110 higher than the original budget primarily due to the addition of State of Michigan maintenance projects, increased monies from the countywide primary road millage and additional funding from Local Jobs Today program. The actual revenue recognized during 2007 was more than the final amended budget by \$119,377. There were twelve (12) immaterial unfavorable variances in all of the revenue line items.

The final amended expenditures budget for 2007 was \$1,770,110 higher than the original budget primarily due to the increased operating costs, increased cost of fringe benefits and unexpected expenses due to an early winter. The actual expenditures recognized during 2007 were \$305,615 less than the final amended budget. There were unfavorable variances in several expenditure line items, the most significant variance being the other expenditures.

Sanilac County Road Commission
MANAGEMENT'S DISCUSSION & ANALYSIS

December 31, 2007

Capital Asset & Debt Administration

Capital Assets

As of December 31, 2007, the Road Commission had invested \$45,552,980 in net capital assets. This amount represents a net increase (including additions and deductions) of \$115,579.

	<u>2007</u>	<u>2006</u>
Capital Assets Not Being Depreciated		
Land & Improvements	\$ 66,903	\$ 66,903
Construction in progress	<u>222,092</u>	<u>393,228</u>
SUBTOTAL	288,995	460,131
Capital Assets Being Depreciated		
Buildings	495,102	430,666
Equipment	8,061,300	8,125,557
Depletable assets	55,450	55,450
Infrastructure	<u>67,475,898</u>	<u>64,961,567</u>
SUB-TOTAL	<u>76,087,750</u>	<u>73,573,240</u>
TOTAL CAPITAL ASSETS	76,376,745	74,033,371
TOTAL ACCUMULATED DEPRECIATION	<u>(30,823,765)</u>	<u>(28,595,970)</u>
TOTAL NET CAPITAL ASSETS	<u>\$ 45,552,980</u>	<u>\$ 45,437,401</u>

This year's major capital asset additions included the following:

Construction in progress	\$ 222,092
Buildings	64,436
Equipment	
Roads	365,670
Shop	5,304
Office	949
Engineer	8,959
Infrastructure	
Roads	2,670,749
Bridges	<u>580,006</u>
TOTAL	<u>\$ 3,918,165</u>

During 2007, the Road Commission traded in and/or disposed of equipment (road, shop, office, and engineering) with a purchase amount of \$444,333.77, related accumulated depreciation of \$433,925.18, and net book value of \$10,408.59.

Sanilac County Road Commission

MANAGEMENT'S DISCUSSION & ANALYSIS

December 31, 2007

Debt

As of December 31, 2007, the Road Commission had \$1,290,591 in long-term debt (i.e., lease purchase agreements, loans, and compensated absences) outstanding versus \$784,595 last year:

	<u>12/31/06 Balance</u>	<u>2007 Additions</u>	<u>2007 Payments</u>	<u>12/31/07 Balance</u>
Lease Purchase				
Agreements and Loans	\$ <u>394,037</u>	\$ <u>825,092</u>	\$ <u>232,412</u>	\$ <u>986,717</u>

Other obligations include accrued vacation pay and sick leave. As of December 31, 2007, the Road Commission has \$303,874 in outstanding debt related to accumulated unused vacation pay and sick leave. As of September 30, 2003, individual employees no longer have vested rights upon termination of employment to receive payment for unused sick leave; however balances that had accumulated up to that date are being paid out to individual employees over a five year period. The fourth of the five payments to individual employees was made during 2007 and accumulated vacation and sick leave obligations were reduced by \$84,301. More detailed information about the Road Commission's long-term liabilities is presented in Note D to the Financial Statements.

Economic Factors and Next Year's Budget

The Board of County Road Commissioners considers many factors when setting the fiscal year 2008 budget. The Road Commission derives approximately 50% of its revenue from the fuel tax collected. Using MDOT projections, it is estimated the Sanilac County Road Commission will receive approximately a 4% decrease in MTF revenues in 2008. The township contributions for local road maintenance have continued to decline but we hope to maintain an affordable level of service on our local road system. During 2008 we will be doing 2 major Federal Aid projects. The primary road millage will be used on bituminous resurfacing on several primary road projects. Most of the primary road work will be done by private contractors leaving road commission forces to do routine preservation and maintenance work. The Road Commission will only be doing scheduled and funded work in an effort to maintain our fund balance.

The above items were considered when adopting the budget for 2008. Amounts available for appropriation in the 2008 budget are \$11,472,390.00 which is approximately \$1.7 million less than the 2007 expenditures. The proposed work on our primary roads will increase our Federal and State revenues and the value of our assets. However with the instability of the revenue sources, we will continue to operate cautiously.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens, and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Sanilac County Road Commission's administrative offices at 35 N. Flynn Street, Sandusky, Michigan 48471.

BASIC FINANCIAL STATEMENTS

Sanilac County Road Commission

STATEMENT OF NET ASSETS

December 31, 2007

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 1,483,175
Accounts receivable	8,135
Due from other governmental units	
State	1,010,552
Local	247,459
Prepaid expenses	35,390
Inventories	<u>245,930</u>
Total current assets	3,030,641
Noncurrent assets	
Capital assets not being depreciated	288,995
Capital assets, net of accumulated depreciation	<u>45,263,985</u>
Total noncurrent assets	<u>45,552,980</u>
TOTAL ASSETS	48,583,621
LIABILITIES	
Current liabilities	
Accounts payable	260,763
Accrued liabilities	70,561
Accrued interest payable	10,215
Performance bond payable	5,000
Current portion of compensated absences	182,990
Current portion of long-term debt	<u>66,093</u>
Total current liabilities	595,622
Noncurrent liabilities	
Advances	215,919
Noncurrent portion of compensated absences	120,884
Noncurrent portion of long-term debt	<u>920,624</u>
Total noncurrent liabilities	<u>1,257,427</u>
TOTAL LIABILITIES	<u>1,853,049</u>
NET ASSETS	
Invested in capital assets, net of related debt	44,566,263
Restricted for County Roads	<u>2,164,309</u>
TOTAL NET ASSETS	<u>\$ 46,730,572</u>

See accompanying notes to financial statements.

Sanilac County Road Commission

STATEMENT OF ACTIVITIES

Year Ended December 31, 2007

	Governmental Activities
Program Expenses	
Primary Road	\$ 2,714,330
Local Road	4,375,984
State Trunkline	1,898,327
Equipment - net	688,609
Administrative - net	344,955
Infrastructure depreciation	2,771,642
Interest expense	24,065
	<hr/>
TOTAL PROGRAM EXPENSES	12,817,912
Program Revenues	
Charges for services	1,937,404
Operating grants and contributions	5,305,661
Capital grants and contributions	3,450,258
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TOTAL PROGRAM REVENUES	10,693,323
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NET PROGRAM REVENUES	(2,124,589)
General Revenues	
Property taxes	1,955,465
Interest	149,742
Miscellaneous	45,190
	<hr/>
TOTAL GENERAL REVENUES	2,150,397
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CHANGE IN NET ASSETS	25,808
Net assets, beginning of the year	46,704,764
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Net assets, end of the year	\$ 46,730,572
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See accompanying notes to financial statements.

Sanilac County Road Commission

GOVERNMENTAL FUND BALANCE SHEET

December 31, 2007

	Governmental Fund Type General Operating Fund
ASSETS	
Cash and cash equivalents	\$ 1,483,175
Accounts receivable	8,135
Due from other governmental units	
State of Michigan	1,010,552
Local	247,459
Prepaid expenditures	35,390
Inventory	245,930
TOTAL ASSETS	\$ 3,030,641
LIABILITIES AND FUND EQUITY	
LIABILITIES	
Accounts payable	\$ 260,763
Accrued liabilities	70,561
Performance bond payable	5,000
Advances	
State of Michigan	215,919
TOTAL LIABILITIES	552,243
FUND EQUITY	
Fund balance	
Reserved for inventory	245,930
Reserved for prepaid expenditures	35,390
Unreserved - undesignated	2,197,078
TOTAL FUND EQUITY	2,478,398
TOTAL LIABILITIES AND FUND EQUITY	\$ 3,030,641

See accompanying notes to financial statements.

Sanilac County Road Commission

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

December 31, 2007

Total fund balance - governmental fund **\$ 2,478,398**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental fund.

The cost of capital assets is	\$ 76,376,745	
Accumulated depreciation is	<u>(30,823,765)</u>	
Capital assets, net		45,552,980

Long-term liabilities are not due and payable in the current period and
therefore are not reported in the Governmental Fund Balance Sheet.

Long-term liabilities at year-end consist of:

Lease purchase agreements and loans	(986,717)	
Accrued interest payable	(10,215)	
Compensated absences	<u>(303,874)</u>	
		<u>(1,300,806)</u>

Net assets of governmental activities		<u><u>\$ 46,730,572</u></u>
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See accompanying notes to financial statements.

Sanilac County Road Commission

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND

Year Ended December 31, 2007

	Governmental Fund Type General Operating Fund
REVENUES	
Taxes	\$ 1,955,465
Licenses and permits	21,260
Intergovernmental	8,755,919
Charges for services	1,916,144
Interest and rents	149,742
Other	45,190
TOTAL REVENUES	12,843,720
EXPENDITURES	
Current	
Primary Road	6,107,674
Local Road	4,417,592
State Trunkline	1,898,327
Equipment - net	126,068
Administrative - net	292,318
Capital outlay	154,131
Debt Service	247,710
TOTAL EXPENDITURES	13,243,820
EXCESS OF REVENUES (UNDER) EXPENDITURES	(400,100)
OTHER FINANCING SOURCES	
Loan proceeds	825,092
NET CHANGE IN FUND BALANCE	424,992
Fund balance, beginning of year	2,053,406
Fund balance, end of year	\$ 2,478,398

See accompanying notes to financial statements.

Sanilac County Road Commission

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2007

Net change in fund balance - governmental fund **\$ 424,992**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in the governmental fund. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 3,524,937	
Depreciation expense	(627,493)	
Infrastructure depreciation	<u>(2,771,642)</u>	
Excess of capital outlay over depreciation expense		125,802

In the statement of activities, only the gain or loss on the sale of the capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of capital assets sold. (10,223)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures in the governmental fund, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets.
In the current year, these amounts consist of:

Loan proceeds	(825,092)	
Capital lease payments	<u>232,412</u>	(592,680)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental fund. These activities consist of:

(Increase) in accrued interest payable	(8,767)	
Decrease in accrued compensated absences	<u>86,684</u>	
		<u>77,917</u>

Change in net assets of governmental activities **\$ 25,808**

See accompanying notes to financial statements.

Sanilac County Road Commission

Fiduciary Fund

STATEMENT OF NET ASSETS

December 31, 2007

	Pension Fund
ASSETS	
Cash equivalents	\$ 242,320
Investments	<u>4,756,743</u>
TOTAL ASSETS	<u>\$ 4,999,063</u>
NET ASSETS	
Held in trust for pension benefits	<u>\$ 4,999,063</u>

See accompanying notes to financial statements.

Sanilac County Road Commission

Fiduciary Fund

STATEMENT OF CHANGES IN PLAN NET ASSETS

Year Ended December 31, 2007

	<u>Pension Fund</u>
ADDITIONS	
Contributions	
Employer	\$ 191,272
Investment earnings	
Net increase in fair value of investments	206,135
Dividends	<u>333,119</u>
Total investment earnings	<u>539,254</u>
TOTAL ADDITIONS	730,526
DEDUCTIONS	
Benefits	<u>(350,910)</u>
CHANGE IN NET ASSETS	379,616
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Beginning of year	<u>4,619,447</u>
End of year	<u><u>\$ 4,999,063</u></u>

See accompanying notes to financial statements.

Sanilac County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Sanilac County Road Commission (the "Commission") is a component unit of Sanilac County, Michigan. The Commission is used to control the expenditure of revenues from the State distribution of gas and weight taxes, federal financial assistance, and contributions from other local units of government for work performed for road projects throughout the county.

The Commission, which is established pursuant to the County Road Law (MCL 224.1), operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Commission. The Commission provides services to twenty-six (26) Townships in Sanilac County and maintains over 1,800 miles of local and primary roads.

1. Reporting Entity

The Commission is required by Public Act 51 of the State of Michigan to have an audit performed of its operations. This financial report has been prepared to meet this State requirement.

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and Statement on Michigan Governmental Accounting and Auditing No. 5, these financial statements are exclusive presentations of the financial condition and results of operations of the Sanilac County Road Commission. The Commission is considered a component unit of Sanilac County, Michigan and is discretely presented in Sanilac County's (the Primary Government) financial statements. A copy of the County's audited financial statements may be obtained at the County Courthouse in Sandusky, Michigan.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Commission as a whole.

The statement of activities presents the direct functional expenses of the Commission and the program revenues that support them. Direct expenses are specifically associated with a service, program, or Commission and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes interest and shows how governmental functions are either self-financing or supported by the general revenues of the Commission.

FUND FINANCIAL STATEMENTS

The Commission uses a single fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The governmental fund financial statements present the Commission's individual major fund.

The major fund of the Commission is:

- a. Special Revenue Fund - This general operating fund is used to account for all financial resources of the Commission, which are restricted to expenditures for specified county road related purposes.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues, which are considered measurable but not available, are recorded as a receivable and deferred revenue. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Commission has elected not to follow subsequent private-sector guidance.

5. Budgets and Budgetary Accounting

The annual budget of the Commission is prepared by Commission management and approved by the Board. Any revisions to the original budget are approved by the Board before the end of the fiscal year.

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consists of the Commission's checking, money market account, and imprest cash. Investments consist of various money market funds, stocks and bonds.

7. Inventories

Inventories of road materials and equipment parts are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are stated at average cost.

Sanilac County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

8. Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets, (e.g., roads, bridges and similar items) are reported under governmental activities within the operating fund in the government-wide financial statements. Capital assets are defined by the Sanilac County Road Commission as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 - 50 years
Road Equipment	5 - 8 years
Shop Equipment	10 years
Engineering Equipment	4 - 10 years
Office Equipment	4 - 10 years
Infrastructure - Roads	5 - 30 years
Infrastructure - Bridges	12 - 50 years

9. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities under the governmental activities within in the Operating Fund Statement of Net Assets.

10. Accrued Vacation and Sick Leave

In accordance with contracts negotiated with the various employee groups of the Commission, employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts. In the event of termination, an employee is paid for certain portions of unused accumulated vacation and sick time. This amount along with related payroll taxes is recorded in the government-wide financial statements.

11. Equipment Rentals

The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be allocated to the various activities. The effect of this allocation is deducted from equipment expenditures for the Statement of Revenues, Expenditures, and Changes in Fund Balance.

12. Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

13. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

Sanilac County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides that the County Treasurer maintain the cash of the Commission. All Commission receipts are deposited with the Sanilac County Treasurer's Office, and in order to make disbursements, the Sanilac County Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account. Also, in order to invest cash, a request is made of the County Treasurer. All funds of the Commission are held with the County Treasurer in separate accounts in the Commission's name.

In accordance with Michigan Compiled Laws, the Commission is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States Banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Corporation or Government National Mortgage Association.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. As of December 31, 2007, the carrying amount of the Commission's deposits was \$1,483,125 and the bank balance was \$1,568,591, of which \$284,784 was covered by federal depository insurance. The remaining balance of \$1,283,807 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Commission held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

Sanilac County Road Commission
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE B: CASH, CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Investments

As of December 31, 2007, the carrying amount and market values for the investment funds are as follows:

	<u>Carrying Amount</u>	<u>Market Value</u>
Uncategorized pooled investment funds:		
American Funds Retirement - Fiduciary Fund	<u>\$ 4,999,063</u>	<u>\$ 4,999,063</u>

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). The Commission's investments were not subject to rating by a NRSRO.

Interest rate risk

The Commission has not adopted a policy that indicates how the Commission will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of credit risk

The Commission has not adopted a policy that indicates how the Commission will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Commission's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The Commission has not adopted a policy that indicates how the Commission will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments of collateral securities that are in possession of an outside party.

The cash caption on the balance sheet includes \$50 in imprest cash.

NOTE C: CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2007 was as follows:

	<u>Balance Jan. 1, 2007</u>	<u>Additions and Reclassifications</u>	<u>Deletions and Reclassifications</u>	<u>Balance Dec. 31, 2007</u>
Capital Assets Not Being Depreciated				
Land and land improvements	\$ 66,903	\$ -	\$ -	\$ 66,903
Construction in progress	<u>393,228</u>	<u>222,092</u>	<u>393,228</u>	<u>222,092</u>
Subtotal	460,131	222,092	393,228	288,995

Sanilac County Road Commission
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE C: CAPITAL ASSETS - CONTINUED

	Balance Jan. 1, 2007	Additions and Reclassifications	Deletions and Reclassifications	Balance Dec. 31, 2007
Capital Assets Being Depreciated/Depleted				
Buildings	\$ 430,666	\$ 64,436	\$ -	\$ 495,102
Equipment -				
Road	7,721,923	365,670	444,010	7,643,583
Shop	174,242	5,304	-	179,546
Office	69,659	949	1,129	69,479
Engineer	159,733	8,959	-	168,692
Infrastructure - roads	46,052,043	2,670,749	736,424	47,986,368
Infrastructure - bridges	18,909,524	580,006	-	19,489,530
Depletable assets	<u>55,450</u>	<u>-</u>	<u>-</u>	<u>55,450</u>
Subtotal	73,573,240	3,696,073	1,181,563	76,087,750
Less Accumulated Depreciation/Depletion				
Buildings	378,965	12,489	-	391,454
Equipment				
Road	6,116,964	580,670	433,787	6,263,847
Shop	87,550	14,413	-	101,963
Office	52,462	11,834	1,129	63,167
Engineer	71,306	8,087	-	79,393
Infrastructure - roads	16,028,127	2,382,355	736,424	17,674,058
Infrastructure - bridges	5,805,146	389,287	-	6,194,433
Depletion	<u>55,450</u>	<u>-</u>	<u>-</u>	<u>55,450</u>
Subtotal	<u>28,595,970</u>	<u>3,399,135</u>	<u>1,171,340</u>	<u>30,823,765</u>
Net Capital Assets Being Depreciated	<u>44,977,270</u>	<u>296,938</u>	<u>10,223</u>	<u>45,263,985</u>
Total Net Capital Assets	<u>\$45,437,401</u>	<u>\$ 519,030</u>	<u>\$ 403,451</u>	<u>\$45,552,980</u>

Depreciation expense was charged to the following activities:

	Amount
Net Equipment Expense	
Direct Equipment	\$ 574,856
Net Administrative Expense	52,637
Infrastructure	<u>2,771,642</u>
	<u>\$ 3,399,135</u>

NOTE D: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portions) of the Commission for the year ended December 31, 2007:

Sanilac County Road Commission
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE D: LONG-TERM DEBT - CONTINUED

	Balance Jan. 1, 2007	Additions	Deletions	Balance Dec. 31, 2007	Amounts Due Within One Year
Governmental Activities					
Lease purchase agreements	\$ 394,037	\$ -	\$ 232,412	\$ 161,625	\$ 66,093
Local Jobs Today loan	-	825,092	-	825,092	-
Vacation and sick leave	<u>390,558</u>	<u>171,445</u>	<u>258,129</u>	<u>303,874</u>	<u>182,990</u>
	<u>\$ 784,595</u>	<u>\$ 996,537</u>	<u>\$ 490,541</u>	<u>\$ 1,290,591</u>	<u>\$ 249,083</u>

Significant details regarding outstanding long-term debt (including current portions) are presented below.

Lease purchase agreements, payable at December 31, 2007, are as follows:

The Commission purchased two International Tractor Trucks under a lease purchase agreement at a total cost of \$267,102. The lease purchase agreement requires thirty-six consecutive monthly payments of \$7,953, which include lease finance costs of 4.50% commencing in 2006.

\$ 46,721

The Commission purchased two Loaders under a lease purchase agreement at a cost of \$163,000. The lease purchase agreement requires forty-eight consecutive monthly payments of \$1,009, which includes lease financing costs at a rate of 4.25%. At the end of the lease term, the Road Commission may purchase the Loaders for \$88,306.

114,904

\$ 161,625

Local Jobs Today Loan

The Commission entered into a Loan Contract with the State of Michigan for the purpose of financing transportation infrastructure improvements. Principal will be repaid using federal aid reimbursements as they are available. Interest of 4% will be invoiced by the State annually. All principal and interest on the loan must be paid on or before September 30, 2009. As of December 31, 2007 the principal amount owed was \$825,092.

Because the principal is to be repaid with federal aid when it becomes available, there is currently no repayment schedule available.

Accumulated Vacation and Sick

In accordance with Commission personnel policies and/or contracts negotiated with various employee groups of the Commission, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts. As of September 30, 2003, individual employees do not have vested rights upon termination of employment to receive payment for unused sick leave, however balances that had accumulated up to that date will be paid out to individual employees over a five year period.

Accumulated vacation and sick leave represents a liability to the Commission, which is presented in a current and long-term portion of the liability. For this reason, the total liability reported in the government-wide financial statements represents a current liability of \$182,990 and a long-term liability of \$120,884 at December 31, 2007.

Sanilac County Road Commission
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE D: LONG-TERM DEBT - CONTINUED

The annual requirements to pay long-term debt principal and interest outstanding for the following installment contracts at December 31, 2007, are as follows:

Year Ending <u>December 31,</u>	<u>Lease purchase agreements</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 66,093	\$ 10,513	\$ 76,606
2009	<u>95,532</u>	<u>3,543</u>	<u>99,075</u>
	<u>\$ 161,625</u>	<u>\$ 14,056</u>	<u>\$ 175,681</u>

NOTE E: FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended December 31, 2007, the Federal aid received and expended by the Road Commission was \$1,240,196 for contracted projects and \$0 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administered by MDOT (they are included in MDOT's single audit). Negotiated projects are projects where the road commission administers the grant and either performs the work or contracts it out. The Road Commission would be subject to single audit requirements if it expended \$500,000 or more for negotiated projects.

NOTE F: EMPLOYEE RETIREMENT SYSTEM

The Road Commission has a master single employer defined contribution plan called The Sanilac County Money Purchase Plan. This defined contribution plan is administered by Pension Plan Service, Inc. and is available to all employees of the Road Commission. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive.

Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on the investments of those contributions, and the forfeitures of other participant's account. All employees who are at least 21 years old and have completed six months of service are eligible to participate.

Plan provisions require that the Road Commission contribute 8 percent of each active participant's compensation and do not allow for participant contributions. The Road Commission's contributions for each employee (and earnings allocated to the employee's account) are vested at the rate of 20 percent upon completing 2 years of service, plus an additional 20 percent for each year of the next 4 years of service. Road Commission contributions for and interest forfeited by employees who leave employment before full vesting are used to reduce the Road Commission's current period contribution requirement. The plan uses the accrual basis of accounting with investments stated at market.

The Road Commission's total payroll for the year ended December 31, 2007, was \$2,454,541. The Road Commission's contributions were calculated using the covered compensation amount of \$2,390,896. The Road Commission made the required contribution amounting to \$191,272.

Sanilac County Road Commission
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE G: CONTINGENT LIABILITIES

The Commission participates in a number of Federal and State assisted grant programs that are subject to compliance audits. The programs and the periodic program compliance audits of many of the programs have not yet been conducted, completed, or resolved. Accordingly, the Commission's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Commission expects such amounts, if any, to be immaterial.

NOTE H: RISK MANAGEMENT

The Road Commission participates in a pool, the Michigan County Road Commission Self-Insurance Pool, with other municipalities, for claims relating to general liability, trunkline, excess liability, auto liability, errors and omissions and physical damage. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to a special assessment to make up the deficiency. The Road Commission has not been informed of any special assessments being required.

The Road Commission participates in the County Road Commission Self-Insurance Fund (CRCSIF) for workers' compensation insurance and has full statutory coverage for workers' disability compensation and employers' liability as granted by the State of Michigan under Chapter 6, Section 418.611 of the Workers' Disability Compensation Act. The Commission has no liability for additional assessments based on the claims filed against the fund nor do they have rights to dividends.

The Commission carries commercial insurance for the risk of loss due to directors' and officers' liability and tank storage.

NOTE I: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the required supplementary information to the financial statements, the Sanilac County Road Commission budgeted expenditures in the General Operating Fund have been shown at the functional classification level. The approved budget of the Sanilac County Road Commission has been adopted the activity level for the General Operating Fund.

	Amended Amount <u>Appropriated</u>	Actual Amount <u>Expended</u>	<u>Variance</u>
General Operating Fund			
Local Road	\$ 3,836,945	\$ 4,417,592	\$ 580,647
Equipment	(485,000)	126,068	611,068
Capital Outlay	153,000	154,131	1,131

Sanilac County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE J: FUND BALANCE RESERVES

Reserved fund balance within the fund level financial statements is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use.

The following are the various fund balance reserves as of December 31, 2007:

General Operating Fund	
Reserved for	
Inventory	\$ 245,930
Prepaid expenditures	<u>35,390</u>
	<u>\$ 281,320</u>

NOTE K: POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Sanilac County Road Commission provides hospitalization medical coverage on a complimentary basis for any employee who retires after January 1, 1990, at age 55 with at least thirty years of service. At age 65, the employee receives supplemental coverage for himself or herself only.

For any employee who retires after age 62 and after January 1, 1990, Sanilac County Road Commission provides the retiree and his or her spouse with hospitalization medical coverage, provided however, that if the retiree's spouse, by virtue of his or her employment or otherwise, has the retiree as a covered beneficiary on his or her hospitalization medical coverage, the Road Commission will be under no obligation to provide coverage. At age 65 the retiree and or spouse coverage will be supplemental only.

The benefits are provided based on requirements of union contracts and are financed on a pay-as-you-go basis. For the year ended December 31, 2007, Sanilac County Road Commission expended \$414,391 for 66 participants currently eligible to receive benefits.

UPCOMING REPORTING CHANGE

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting By Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2009.

REQUIRED SUPPLEMENTARY INFORMATION

Sanilac County Road Commission

BUDGETARY COMPARISON SCHEDULE - SCHEDULE OF
REVENUES - BUDGET AND ACTUAL

GENERAL OPERATING FUND

Year Ended December 31, 2007

	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
REVENUES				
Taxes				
Property taxes	\$ 2,066,000	\$ 2,066,000	\$ 1,955,465	\$ (110,535)
Licenses and permits				
Permits	30,000	42,000	21,260	(20,740)
Intergovernmental				
Federal sources				
Surface transportation program	1,012,940	562,050	-	(562,050)
Economic development "D" funds	503,315	1,690,315	1,044,430	(645,885)
High priority	494,190	494,190	195,766	(298,424)
State sources				
Motor Vehicle Highway Funds				
Engineering	10,000	10,000	10,000	-0-
Primary road	2,407,000	2,407,000	2,638,279	231,279
Local road	2,212,500	2,212,500	2,751,352	538,852
Local Jobs Today	123,550	123,550	466,665	343,115
Economic development funds				
Rural primary "D" funds	219,330	340,330	256,799	(83,531)
Local sources				
City and village contributions	16,500	11,500	5,290	(6,210)
Township contributions	1,525,000	1,525,000	1,387,338	(137,662)
Total intergovernmental	8,524,325	9,376,435	8,755,919	(620,516)
Charges for services				
State Trunkline maintenance				
Direct charges	1,000,000	1,179,000	1,215,634	36,634
Indirect charges	50,000	664,000	664,046	46
Material sales	20,000	29,000	23,508	(5,492)
Salvage sales	8,000	14,000	12,956	(1,044)
Total charges for services	1,078,000	1,886,000	1,916,144	30,144
Interest	81,000	143,000	149,742	6,742
Other	-	36,000	45,190	9,190
TOTAL REVENUES	11,779,325	13,549,435	12,843,720	(705,715)
OTHER FINANCING SOURCES				
Loan proceeds - Local Jobs Today	-	-	825,092	825,092
TOTAL REVENUES AND OTHER FINANCING SOURCES	\$ 11,779,325	\$ 13,549,435	\$ 13,668,812	\$ 119,377

Sanilac County Road Commission

BUDGETARY COMPARISON SCHEDULE - SCHEDULE OF
EXPENDITURES - BUDGET AND ACTUAL

GENERAL OPERATING FUND

Year Ended December 31, 2007

	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
EXPENDITURES				
Current				
Primary Road				
Routine and preventative maintenance	\$ 1,000,000	\$ 1,490,000	\$ 1,546,947	\$ (56,947)
Preservation - structural improvements	5,043,000	5,149,510	4,560,727	588,783
Total Primary Road	6,043,000	6,639,510	6,107,674	531,836
Local Road				
Routine and preventative maintenance	2,750,000	2,960,000	4,077,614	(1,117,614)
Preservation - structural improvements	872,945	876,945	339,978	536,967
Total Local Road	3,622,945	3,836,945	4,417,592	(580,647)
State Trunkline Maintenance	1,050,000	1,908,000	1,898,327	9,673
Equipment				
Direct	1,050,000	1,170,000	1,308,614	(138,614)
Indirect	600,000	915,000	988,565	(73,565)
Operating	45,000	70,000	502,301	(432,301)
Less: Equipment rental	(2,100,000)	(2,640,000)	(2,673,412)	33,412
Total Equipment	(405,000)	(485,000)	126,068	(611,068)
Administrative				
Administration	1,268,380	1,328,380	462,747	865,633
Less:				
Handling charges	-	-	(12,441)	12,441
Overhead state	-	(82,000)	(157,988)	75,988
Total Administrative	1,268,380	1,246,380	292,318	954,062
Capital Outlay				
Capital outlay	600,000	753,000	788,820	(35,820)
Less:				
Depreciation and depletion	(600,000)	(600,000)	(622,538)	22,538
Equipment retirements	-	-	(12,151)	12,151
Total Capital Outlay	-	153,000	154,131	(1,131)
Debt Service				
Principal payments	165,000	234,100	232,412	1,688
Interest payments	35,000	16,500	15,298	1,202
Total Debt Service	200,000	250,600	247,710	2,890
TOTAL EXPENDITURES	\$ 11,779,325	\$ 13,549,435	\$ 13,243,820	\$ 305,615

OTHER SUPPLEMENTARY INFORMATION

Sanilac County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF CHANGES IN FUND BALANCE

Year Ended December 31, 2007

	Primary Road Fund	Local Road Fund	County Road Commission	Total
TOTAL REVENUES	\$ 8,529,596	\$ 4,286,119	\$ 28,005	\$ 12,843,720
TOTAL EXPENDITURES	<u>8,362,492</u>	<u>4,730,549</u>	<u>150,779</u>	<u>13,243,820</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	167,104	(444,430)	(122,774)	(400,100)
OTHER FINANCING SOURCES				
Loan proceeds	<u>825,092</u>	<u>-</u>	<u>-</u>	<u>825,092</u>
NET CHANGE IN FUND BALANCE	992,196	(444,430)	(122,774)	424,992
Fund balance, beginning of year	<u>1,213,618</u>	<u>526,235</u>	<u>313,553</u>	<u>2,053,406</u>
Fund balance, end of year	<u>\$ 2,205,814</u>	<u>\$ 81,805</u>	<u>\$ 190,779</u>	<u>\$ 2,478,398</u>

Sanilac County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES

Year Ended December 31, 2007

	Primary Road Fund	Local Road Fund	County Road Commission	Total
REVENUES				
Taxes	\$ 1,955,465	\$ -	\$ -	\$ 1,955,465
Licenses and permits				
Permits	-	-	21,260	21,260
Intergovernmental				
Federal sources	1,240,196	-	-	1,240,196
State sources	3,367,143	2,755,952	-	6,123,095
Local sources	-	1,392,628	-	1,392,628
Total intergovernmental	4,607,339	4,148,580	-0-	8,755,919
Charges for services				
State Trunkline				
Direct charges	1,215,634	-	-	1,215,634
Indirect charges	664,046	-	-	664,046
Material sales	-	23,508	-	23,508
Salvage sales	-	12,956	-	12,956
Total charges for services	1,879,680	36,464	-0-	1,916,144
Interest	60,583	89,159	-	149,742
Other	26,529	11,916	6,745	45,190
TOTAL REVENUES	8,529,596	4,286,119	28,005	12,843,720
OTHER FINANCING SOURCES				
Loan proceeds - Local Jobs Today	825,092	-	-	825,092
TOTAL REVENUES AND OTHER FINANCING SOURCES	\$ 9,354,688	\$ 4,286,119	\$ 28,005	\$ 13,668,812

Sanilac County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF EXPENDITURES AND OTHER FINANCING USES

Year Ended December 31, 2007

	Primary Road Fund	Local Road Fund	County Road Commission	Total
EXPENDITURES				
Routine and preventative maintenance	\$ 1,546,947	\$ 4,077,614	\$ -	\$ 5,624,561
Preservation - structural improvements	4,560,727	339,978	-	4,900,705
State Trunkline	1,898,327	-	-	1,898,327
Equipment Expense - Net	30,256	71,922	23,890	126,068
Administrative Expense - Net	169,628	122,690	-	292,318
Capital Outlay - Net	(91,103)	118,345	126,889	154,131
Debt Service	247,710	-	-	247,710
TOTAL EXPENDITURES	<u>\$ 8,362,492</u>	<u>\$ 4,730,549</u>	<u>\$ 150,779</u>	<u>\$ 13,243,820</u>

Sanilac County Road Commission

SCHEDULE OF CHANGES IN CAPITAL ASSETS

Year Ended December 31, 2007

	Balance Jan. 1, 2007	Additions and Reclassifications	Deletions and Reclassifications	Balance Dec. 31, 2007
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land and land improvements	\$ 66,903	\$ -	\$ -	\$ 66,903
Construction in progress	393,228	222,092	393,228	222,092
Subtotal	460,131	222,092	393,228	288,995
CAPITAL ASSETS BEING DEPRECIATED/DEPLETED				
Buildings	430,666	64,436	-	495,102
Equipment				
Road	7,721,923	365,670	444,010	7,643,583
Shop	174,242	5,304	-	179,546
Office	69,659	949	1,129	69,479
Engineer	159,733	8,959	-	168,692
Infrastructure - Roads	46,052,043	2,670,749	736,424	47,986,368
Infrastructure - Bridges	18,909,524	580,006	-	19,489,530
Depletable assets	55,450	-	-	55,450
Subtotal	73,573,240	3,696,073	1,181,563	76,087,750
LESS ACCUMULATED DEPRECIATION/DEPLETION				
Buildings	378,965	12,489	-	391,454
Equipment				
Road	6,116,964	580,670	433,787	6,263,847
Shop	87,550	14,413	-	101,963
Office	52,462	11,834	1,129	63,167
Engineer	71,306	8,087	-	79,393
Infrastructure - Roads	16,028,127	2,382,355	736,424	17,674,058
Infrastructure - Bridges	5,805,146	389,287	-	6,194,433
Depletion	55,450	-	-	55,450
Subtotal	28,595,970	3,399,135	1,171,340	30,823,765
Net Capital Assets Being Depreciated	44,977,270	296,938	10,223	45,263,985
Total Net Capital Assets	<u>\$ 45,437,401</u>	<u>\$ 519,030</u>	<u>\$ 403,451</u>	<u>\$ 45,552,980</u>

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF COMPONENT UNIT FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of County Road Commissioners
Sanilac County
Sandusky, Michigan

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining information of the Sanilac County Road Commission as of and for the year ended December 31, 2007, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated June 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Sanilac County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls. We consider the deficiencies described as items 2007-1 and 2007-2 in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that item 2007-2 described in the schedule of findings and responses to be a material weakness.

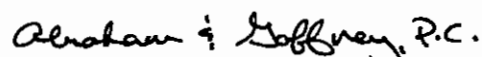
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and responses as items 2006-2 and 2007-3.

We noted certain matters that we reported to management of the Sanilac County Road Commission in a separate letter dated June 30, 2008.

The Sanilac County Road Commission's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Road Commission's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the members of the Board of Commissioners of the Sanilac County Road Commission, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 30, 2008

Sanilac County Road Commission

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended December 31, 2007

FINDINGS/NONCOMPLIANCE

Findings Related to Internal Control Over the Financial Statements.

2007-1 Preparation of Financial Statements

Condition: As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with generally accepted accounting principles (GAAP) is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls.

Criteria: All Michigan governments are required to prepare financial statements in accordance with GAAP. This is a responsibility of the government's management. The preparation of financial statement in accordance with GAAP required internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting). -

Cause: This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Effect: As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

Corrective Action Response: Management will continue to research methods capable of meeting the accounting standards at a reasonable cost.

2007-2 Material Journal Entries Proposed by Auditors

Condition: Material journal entries for the proper recognition of cash, taxes receivable, prepaid expenditures, liabilities, revenues, and expenditures were proposed by the auditors. These misstatements were not detected by the Commission's internal control over financial reporting. These entries were brought to the attention of management and were subsequently recorded in the Commission's general ledger.

Criteria: Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (where applicable), including the notes to the financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

Effect: Through the identification of material journal entries that were not otherwise identified by management, the auditors are effectively part of the Commission's internal controls.

Recommendation: We recommend that the Commission take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

Corrective Action Response: Management will continue to try to eliminate the need for material journal entries when the audit is performed.

Sanilac County Road Commission
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2007

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

2006-2 Lack of Investment Policy Addressing Deposit and Investment Risks

Condition: During the course of our audit and through discussions with administration, it was noted that the Road Commission has not amended their investment policy to addresses the reporting requirements of GASB Statement No. 40. This issue was noted and reported in our audit comments last year.

Criteria: Governmental Accounting Standards Board (GASB) Statement No. 40 requires governments to disclose whether or not their investment policy addresses deposit and investment risks. This statement was effective for the year ended December 31, 2005 for the Road Commission.

Effect: The Road Commission holds a significant amount of investments. These resources are necessary for the delivery of the Road Commission's services and programs or to carry out its fiduciary responsibilities. The Road Commission may have greater exposure to these risks if they are not addressed.

Recommendation: We recommend the Board review their current investment policy and make the necessary amendments to address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Such policies are required to be disclosed in the notes to the Road Commission's financial statements by GASB Statement No. 40.

Corrective Action Response: The Road Commission adopted the investment policy as adopted by the County Board of Commissioners on April 18, 2007. We will review the policy and make the necessary amendments, if needed, in the near future.

2007-3 Unfavorable Budget Variances

Condition: During our review of the Road Commission's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for various activities. A similar issue was noted and reported in our audit comments last year.

Criteria: The Uniform Budgeting and Accounting Act requires the Commission to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

Effect: The Sanilac County Road Commission adopted the budget for the General Operating Fund at the activity level. Having unfavorable budget variances as described above, the Commission is not in compliance with Public Act 621 of 1978, as amended.

Recommendation: We recommend the Board of Commissioners monitor budgeted expenditures against actual expenditures on a more frequent basis to alleviate future unfavorable budget variances.

Corrective Action Response: Management reviews the budget monthly and adjustments are made when expenditures are approved by the Board. The program will be monitored more closely to alleviate unfavorable budget variances.

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MANAGEMENT LETTER

Board of the County Road Commissioners
Sanilac County
Sandusky, Michigan

Dear Commissioners:

As you know, we have recently completed our audit of the records of the Sanilac County Road Commission for the year ended December 31, 2007. In connection with the audit, we feel that certain changes in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. This suggestion is a result of our evaluation of the internal control structure and our discussions with management.

Management and the Board of Commissioners should be aware of the requirements of GASB Statement No. 45.

The Governmental Accounting Standards Board has issued Statement No. 45, *Accounting and Reporting By Employers for Postemployment Benefits Other Than Pensions*. The pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions, such as life insurance). Implementing this accounting standard will cause the financial statements to recognize the cost of providing retiree health care coverage and other benefits over the working life of the employee, rather than at the time the premiums are paid. This pronouncement is effective for the Sanilac County Road Commission for the year ending December 31, 2009.

One of the most significant requirements of GASB Statement No. 45 is the inclusion of certain actuarial information in the notes to the financial statements that is not required or disclosed for the current or past fiscal years. A Schedule of Funding Progress will be required that will disclose funding progress in relation to the Annual Required Contribution, or ARC. The ARC will be calculated annually by an actuary and will be composed of two components: required contributions for current employee service and required contributions for past employee service. Calculation of the ARC requires an amortization period of past service cost of no longer than thirty (30) years.

The Road Commission will be required by GASB Statement No. 45 to recognize in its government-wide financial statements an asset or liability for any excess or deficiency of contributions to the other post-employment benefits plan over or under the ARC.

We would like management and the Board of Commissioners to be aware of this upcoming change and also suggest that discussions be held to initiate the planning process for implementing this new standard.

This condition was considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements, and this report does not affect our report on the component unit financial statements dated June 30, 2008.

This report is intended solely for the use of management and the Board of County Road Commissioners of Sanilac County and is not intended to be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you, and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 30, 2008